

**BEAVER CREEK COOPERATIVE TELEPHONE COMPANY**  
**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

	DECEMBER 31,	
	2013	2012
<b>CURRENT ASSETS</b>		
Cash	\$ 207,504	\$ 192,765
Subscriber accounts receivable, less bad debt allowance of \$32,885 for 2013 and \$44,196 for 2012	696,023	835,918
Settlement and access accounts receivable	292,110	510,887
Other accounts receivable	3,789	11,742
Materials and supplies	185,096	179,145
Prepaid expenses	119,187	144,133
Total current assets	1,503,709	1,874,590
<b>NONCURRENT ASSETS</b>		
Marketable securities	112	94
Investments	1,834,673	1,975,760
Intangible assets	2,000	13,975
Other noncurrent assets	7,255	7,668
Deferred income taxes	129,817	130,189
Total noncurrent assets	1,973,857	2,127,686
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Regulated plant in service	31,722,906	31,788,856
Regulated plant under construction	-	112,717
Nonregulated plant in service	11,445,446	11,204,529
Nonoperating plant	157,125	157,125
	43,325,477	43,263,227
Less accumulated depreciation	27,640,136	26,430,105
Net property, plant, and equipment	15,685,341	16,833,122
	<u>\$ 19,162,907</u>	<u>\$ 20,835,398</u>

**BEAVER CREEK COOPERATIVE TELEPHONE COMPANY**  
**CONSOLIDATED BALANCE SHEETS**

**LIABILITIES AND MEMBERS' EQUITY**

	DECEMBER 31,	
	2013	2012
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 1,469,596	\$ 1,417,973
Current portion of capital lease obligations	-	32,438
Accounts payable	889,170	1,111,300
Advance billing and customer deposits	270,669	281,193
Income taxes payable	562	106
Accrued expenses	1,929,404	1,521,009
Deferred revenue	53,999	46,933
Line of credit payable	200,000	200,000
Total current liabilities	<u>4,813,400</u>	<u>4,610,952</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, less current portion	7,818,798	9,288,608
Capital lease obligations, less current portion	-	79,094
Deferred credits	3,368	11,649
Total long-term liabilities	<u>7,822,166</u>	<u>9,379,351</u>
<b>MEMBERS' EQUITY</b>		
Controlling interest		
Memberships and other capital	99,072	109,371
Patronage capital	6,516,704	6,824,874
Accumulated other comprehensive loss	(25,441)	(25,459)
Total controlling interest	6,590,335	6,908,786
Noncontrolling interest	(62,994)	(63,691)
Total members' equity	<u>6,527,341</u>	<u>6,845,095</u>
	<u>\$ 19,162,907</u>	<u>\$ 20,835,398</u>

**BEAVER CREEK COOPERATIVE TELEPHONE COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	YEARS ENDED DECEMBER 31,	
	2013	2012
<b>OPERATING REVENUES</b>		
Local network	\$ 1,748,735	\$ 1,818,609
Interstate access	1,424,290	1,200,515
Intrastate access	359,448	284,574
Federal universal service and state high cost support	1,276,608	1,626,259
Miscellaneous	399,768	350,227
Internet, long distance, and wireless revenue	2,038,294	2,004,817
Cable television	1,461,466	1,550,456
Ad insertion and related revenues	88,598	370,114
Total operating revenues	8,797,207	9,205,571
<b>OPERATING EXPENSES</b>		
Plant specific	1,573,159	1,714,050
Plant nonspecific	410,078	358,880
Customer	884,608	844,294
Corporate	998,800	1,012,453
Depreciation	1,644,658	1,785,071
Amortization	11,975	14,291
Other taxes	225,817	260,410
Internet, long distance, and wireless costs	1,247,800	1,084,018
Cable television costs	1,224,188	1,187,456
Ad insertion and related costs	44,562	265,963
Other nonregulated expenses	228,302	237,585
Total operating expenses	8,493,947	8,764,471
<b>OPERATING MARGINS</b>	303,260	441,100
<b>OTHER INCOME (EXPENSE)</b>		
Interest and dividend income	149,861	83,769
Other income	25,163	185,124
Equity income (loss) in investment	812	(812)
Interest expense	(780,444)	(835,296)
Total other income and (expense)	(604,608)	(567,215)
<b>LOSS BEFORE INCOME TAXES</b>	(301,348)	(126,115)
Income taxes	839	17,379
<b>LOSS BEFORE NONCONTROLLING INTEREST</b>	(302,187)	(143,494)
<b>NONCONTROLLING INTEREST</b>	(697)	(2,354)
<b>NET LOSS</b>	\$ (302,884)	\$ (145,848)

**BEAVER CREEK COOPERATIVE TELEPHONE COMPANY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	YEARS ENDED DECEMBER 31,	
	2013	2012
NET LOSS	\$ (302,884)	\$ (145,848)
Other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale	18	(112)
Reclassification adjustment	-	-
Other comprehensive loss	18	(112)
COMPREHENSIVE LOSS	\$ (302,866)	\$ (145,960)

**BEAVER CREEK COOPERATIVE TELEPHONE COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEARS ENDED DECEMBER 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (302,884)	\$ (145,848)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	1,656,633	1,799,362
Deferred income taxes	372	17,271
Loss attributable to noncontrolling interest	697	2,354
Equity (income) loss in affiliate investment	(812)	812
Patronage capital credits, noncash	(114,154)	(40,804)
Allowance for funds used during construction	-	(454)
Loss on disposition of assets	124,712	11,215
Effect of changes in operating assets and liabilities:		
Accounts receivable	366,625	(218,389)
Materials and supplies	(5,951)	9,181
Prepaid expenses	24,946	21,058
Other assets	413	(1,026)
Accounts payable	(222,130)	477,801
Advance billing and customer deposits	(10,524)	(17,719)
Income taxes refundable/payable	456	(194)
Accrued expenses	408,395	295,418
Deferred revenue	7,066	251
Deferred credits	(8,281)	(6,973)
Net cash from operating activities	1,925,579	2,203,316
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant, and equipment, net	(496,877)	(576,988)
Proceeds from RTFC subordinated capital credits	159,818	75,636
Proceeds from sale of investment	17,313	-
Purchase of investments	(45,790)	(43,215)
Net cash from investing activities	(365,536)	(544,567)



**BEAVER CREEK COOPERATIVE TELEPHONE COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEARS ENDED DECEMBER 31,	
	2013	2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on line of credit	-	10,000
Principal payments on long-term debt	(1,418,187)	(1,557,428)
Principal payments on capital lease obligations	(111,532)	(62,554)
Patronage capital paid	(5,286)	-
Memberships received and retired, net	(10,299)	(18,413)
Net cash from financing activities	(1,545,304)	(1,628,395)
<b>NET CHANGE IN CASH</b>	14,739	30,354
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	192,765	162,411
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 207,504	\$ 192,765
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid during the year for:		
Interest	\$ 788,859	\$ 843,711
Income taxes	\$ 11	\$ 302

To the Board of Directors  
**Beaver Creek Cooperative Telephone Company**

We have audited the consolidated financial statements of Beaver Creek Cooperative Telephone Company (the Company) and its subsidiary for the year ended December 31, 2013, and have issued our report thereon dated April 10, 2014. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY  
ACCEPTED IN THE UNITED STATES OF AMERICA**

As stated in our engagement letter dated November 11, 2013, our responsibility, as described by professional standards, is to form and express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with generally accepted auditing standards and to design the audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement. An audit of consolidated financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Beaver Creek Cooperative Telephone Company's internal control over financial reporting. Accordingly, we considered Beaver Creek Cooperative Telephone Company's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the consolidated financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

## **SIGNIFICANT AUDIT FINDINGS**

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Beaver Creek Cooperative Telephone Company are described in Note 1 to the consolidated financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during 2013. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

### **Significant Accounting Estimates**

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the 2013 interstate revenue requirement is based on: an average of regulated rate base assets, regulated operating expenses less adjustments, interstate traffic factors, and an authorized NECA rate of return. We evaluated the key factors and assumptions used to develop the interstate revenue requirement in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

### **Significant Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the consolidated financial statements taken as a whole.



### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated April 10, 2014.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Significant Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Beaver Creek Cooperative Telephone Company and is not intended to be, and should not be, used by anyone other than these specified parties.

*Mess Adams LLP*

Stockton, California  
April 10, 2014